

TRANSFER OF RETIREMENT CREDITS TO SOCIAL SECURITY SYSTEM

(Part I)

HEARINGS

BEFORE THE

**SUBCOMMITTEE ON RETIREMENT, INSURANCE,
AND HEALTH BENEFITS**

OF THE

**COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES**

NINETIETH CONGRESS

FIRST SESSION

ON

H.R. 6784

**A BILL TO AMEND SUBCHAPTER III OF CHAPTER 83 OF
TITLE 5, UNITED STATES CODE**

MARCH 21 AND 22, 1967

Serial No. 90-10

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TRANSFER OF RETIREMENT CREDITS TO SOCIAL SECURITY SYSTEM

TUESDAY, MARCH 21, 1967

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON RETIREMENT, INSURANCE, AND HEALTH
BENEFITS OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met at 10:10 a.m. in room 346, Cannon House Office Building, Hon. Dominick V. Daniels (chairman of the subcommittee) presiding.

Mr. DANIELS. The Subcommittee on Retirement, Insurance, and Health Benefits is meeting this morning in open session for the purpose of receiving testimony on H.R. 6784, a bill introduced by the Chair.

H.R. 6784 embodies an administration recommendation designed to close serious gaps in retirement, disability, and survivor protection, and to remedy deficiencies in the benefit levels of employees subject to the civil service retirement system. The Cabinet Committee on Federal Staff Retirement Systems last year recommended to the President, and the President has since recommended to the Congress, this twofold proposal to guarantee that Federal employees have survivor, disability, and retirement protection at least as high as that which the social security system extends the rest of the Nation's work force. This two-pronged approach proposes to meet, to a large extent, the needs for basic protection that are not now being met by the Federal staff retirement system, but without disturbing current benefit rights of present employees and without providing direct social security coverage.

Without objection, the bill, H.R. 6784, and the administrative reports of the Civil Service Commission and Bureau of the Budget will be inserted in the record at this point.

(The material referred to is as follows:)

90TH CONGRESS
1ST SESSION

H. R. 6784

IN THE HOUSE OF REPRESENTATIVES

MARCH 8, 1967

Mr. DANIELS introduced the following bill; which was referred to the Committee on Post Office and Civil Service

A BILL

To amend subchapter III of chapter 83 of title 5, United States Code.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That section 8331 of title 5, United States Code, is
4 amended—

5 (1) by amending paragraph (8) to read:

6 “(8) ‘lump-sum credit’ means the unrefunded
7 amount consisting of—

8 “(A) retirement deductions made from the
9 basic pay of an employee or member; plus

10 “(B) amounts deposited by an employee or
11 member covering earlier service; less

I

1 “(C) for the purpose of section 8342 (a) or
2 (d) of this title, in the case of an employee who
3 after 1967 is separated from service, transferred to
4 a position in which he does not continue subject to
5 this subchapter, or dies, the tax equivalent; plus

6 “(D) interest thereon at 4 per centum a year
7 to December 31, 1947, and 3 per centum a year
8 thereafter compounded annually to December 31,
9 1956, or, in the case of an employee or member
10 separated from the service or transferred to a posi-
11 tion in which he does not continue subject to this
12 subchapter before he has completed five years of
13 civilian service, to the date of the separation or
14 transfer;

15 but does not include interest—

16 “(i) if the service covered thereby aggregates
17 one year or less; or

18 “(ii) for the fractional part of a month in the
19 total service;”;

20 (2) by striking out “and” at the end of para-
21 graph (15) ;

22 (3) by striking out the period at the end of para-

1 graph (16) and inserting a semicolon in place thereof;
2 and

3 (4) by inserting the following new paragraphs
4 after paragraph (16) :

5 “(17) ‘tax equivalent’ means an amount equal to
6 the taxes which would have been payable (but which
7 have not been paid) under section 3101 of title 26, with
8 respect to service after June 30, 1966, in which the
9 employee was subject to this subchapter or an earlier
10 corresponding statute, if the basic pay received by him
11 for that service had at the time constituted remuneration
12 for employment for the purpose of subchapter II of
13 chapter 7 of title 42. As used in this paragraph, ‘serv-
14 ice’ does not include (A) any period of service that
15 terminated before the second month following the month
16 of enactment of this amendment or (B) service per-
17 formed by an alien outside the United States, the Com-
18 monwealth of Puerto Rico, the Virgin Islands, Guam,
19 and American Samoa; and

20 “(18) ‘minimum annuity base’ means the greater
21 of (A) \$48 times full years of service not exceeding
22 twenty-five or (B) the amount in column II on the

- 1 line on which in column I of the following table appears
- 2 the average pay of the employee:

"TABLE FOR DETERMINING MINIMUM ANNUITY BASE AND FAMILY MAXIMUM

I (Average pay)		II (Minimum annuity base)	III (Family maximum)
If an employee's average pay (as determined under paragraph (4) of this subsection) is--		The amount referred to in this paragraph is--	And the amount referred to in section 8339(e) is--
At least--	But less than--		
	\$1,170	\$840	\$1,260
\$1,170	1,200	894	1,284
1,200	1,224	876	1,308
1,224	1,236	888	1,332
1,236	1,260	900	1,344
1,260	1,284	912	1,380
1,284	1,296	936	1,404
1,296	1,320	948	1,416
1,320	1,308	960	1,440
1,308	1,428	972	1,464
1,428	1,470	996	1,488
1,470	1,530	1,008	1,512
1,530	1,596	1,020	1,536
1,596	1,644	1,032	1,548
1,644	1,704	1,044	1,572
1,704	1,754	1,056	1,596
1,754	1,812	1,080	1,620
1,812	1,872	1,092	1,644
1,872	1,932	1,104	1,668
1,932	1,980	1,128	1,692
1,980	2,040	1,140	1,704
2,040	2,100	1,162	1,728
2,100	2,148	1,184	1,752
2,148	2,208	1,188	1,776
2,208	2,268	1,200	1,800
2,268	2,328	1,212	1,848
2,328	2,376	1,224	1,896
2,376	2,436	1,236	1,944
2,436	2,466	1,260	1,992
2,466	2,544	1,272	2,028
2,544	2,604	1,284	2,076
2,604	2,664	1,296	2,124
2,664	2,712	1,320	2,160
2,712	2,772	1,332	2,208
2,772	2,832	1,344	2,256
2,832	2,880	1,356	2,292
2,880	2,940	1,360	2,340
2,940	3,000	1,392	2,388
3,000	3,048	1,404	2,424
3,048	3,108	1,410	2,472
3,108	3,168	1,428	2,520
3,168	3,210	1,452	2,568
3,210	3,276	1,464	2,616
3,276	3,336	1,476	2,664
3,336	3,384	1,488	2,700
3,384	3,444	1,512	2,748
3,444	3,504	1,524	2,796
3,504	3,552	1,536	2,832
3,552	3,612	1,548	2,880
3,612	3,672	1,572	2,928
3,672	3,720	1,584	2,964
3,720	3,780	1,596	3,012
3,780	3,840	1,608	3,060
3,840	3,888	1,620	3,060
3,888	3,948	1,644	3,144
3,948	4,008	1,656	3,192
4,008	4,056	1,668	3,240
4,056	4,110	1,680	3,288
4,110	4,170	1,704	3,336
4,170	4,224	1,716	3,372
4,224	4,284	1,728	3,420
4,284	4,344	1,740	3,468
4,344	4,392	1,764	3,504
4,392	4,452	1,776	3,552
4,452	4,512	1,788	3,600
4,512	4,560	1,800	3,636
4,560	4,620	1,824	3,684
4,620	4,680	1,836	3,732
4,680	4,728	1,848	3,780
4,728	4,788	1,860	3,816
4,788	4,848	1,872	3,864
4,848	4,896	1,896	3,912
4,896	4,956	1,908	3,960
4,956	5,016	1,920	4,008
5,016	5,064	1,932	4,044
5,064	5,124	1,944	4,092
5,124	5,184	1,966	4,140
5,184	5,244	1,980	4,188
5,244	5,292	1,992	4,234
5,292	5,353	2,004	4,272
5,353	5,412	2,016	4,320

"TABLE FOR DETERMINING MINIMUM ANNUITY BASE AND FAMILY MAXIMUM--Com.

I (Average pay)		II (Minimum annuity base)	III (Family maximum)
If an employee's average pay (as determined under paragraph (4) of this subsection) is--		The amount referred to in this paragraph is--	And the amount referred to in section 8339(o) is--
At least--	But less than --		
\$5,412	\$5,460	\$2,028	\$4,844
5,460	5,520	2,040	4,868
5,520	5,580	2,062	4,892
5,580	5,628	2,078	4,904
5,628	5,688	2,088	4,928
5,688	5,748	2,100	4,932
5,748	5,796	2,112	4,976
5,796	5,856	2,124	4,990
5,856	5,916	2,136	4,994
5,916	5,964	2,148	4,998
5,964	6,024	2,172	5,000
6,024	6,084	2,184	5,004
6,084	6,132	2,196	5,008
6,132	6,182	2,208	5,032
6,182	6,232	2,220	5,056
6,232	6,300	2,232	5,080
6,300	6,360	2,256	5,104
6,360	6,420	2,268	5,128
6,420	6,468	2,280	5,140
6,468	6,528	2,292	5,174
6,528	6,588	2,304	5,198
6,588	6,624	2,316	5,200
6,624	6,672	2,328	5,204
6,672	6,720	2,340	5,248
6,720	6,768	2,352	5,260
6,768	6,804	2,364	5,272
6,804	6,840	2,376	5,296
6,840	6,888	2,388	5,308
6,888	6,924	2,400	5,316
6,924	6,972	2,412	5,340
6,972	7,008	2,424	5,352
7,008	7,056	2,436	5,376
7,056	7,104	2,448	5,388
7,104	7,140	2,460	5,400
7,140	7,188	2,472	5,414
7,188	7,224	2,484	5,436
7,224	7,272	2,496	5,448
7,272	7,306	2,508	5,460
7,306	7,356	2,520	5,472
7,356	7,404	2,532	5,496
7,404	7,440	2,544	5,508
7,440	7,488	2,556	5,512
7,488	7,524	2,568	5,516
7,524	7,572	2,580	5,520
7,572	7,608	2,592	5,524
7,608	7,656	2,604	5,528
7,656	7,704	2,616	5,532
7,704	7,740	2,628	5,536
7,740	7,788	2,640	5,540
7,788	7,824	2,652	5,544
7,824	7,872	2,664	5,548
7,872	7,908	2,676	5,552
7,908	7,956	2,688	5,556
7,956	7,992	2,700	5,560
7,992	8,040	2,712	5,564
8,040	8,088	2,724	5,568
8,088	8,124	2,736	5,572
8,124	8,172	2,748	5,576
8,172	8,228	2,760	5,580
8,228	8,260	2,772	5,584
8,260	8,304	2,784	5,588
8,304	8,348	2,796	5,592
8,348	8,392	2,808	5,596
8,392	8,424	2,820	5,600
8,424	8,472	2,832	5,604
8,472	8,520	2,844	5,608
8,520	8,568	2,856	5,612
8,568	8,604	2,868	5,616
8,604	8,652	2,880	5,620
8,652	8,700	2,892	5,624
8,700	8,748	2,904	5,628
8,748	8,796	2,916	5,632
8,796	8,832	2,928	5,636
8,832	8,880	2,940	5,640
8,880	8,928	2,952	5,644
8,928	8,976	2,964	5,648
8,976	9,012	2,976	5,652
9,012	9,060	2,988	5,656
9,060	9,108	3,000	5,660
9,108	9,156	3,012	5,664
9,156	9,204	3,024	5,668
9,204	9,240	3,036	5,672
9,240	9,288	3,048	5,676
9,288	9,336	3,060	5,680
9,336	9,384	3,072	5,684
9,384	9,432	3,084	5,688
9,432	9,468	3,096	5,692
9,468	9,516	3,108	5,696
9,516	9,564	3,120	5,700

TRANSFER OF RETIREMENT CREDITS

7

6

"TABLE FOR DETERMINING MINIMUM ANNUITY BASE AND FAMILY MAXIMUM--Con.

I (Average pay)		II (Minimum annuity base)	III (Family maximum)
If an employee's average pay (as determined under paragraph (4) of this subsection) is--		The amount referred to in this paragraph is--	And the amount referred to in section 8339(c) is--
At least--	But less than--		
\$9,594	\$9,612	\$3,132	\$8,000
9,612	9,660	3,144	8,024
9,660	9,696	3,156	8,036
9,696	9,744	3,168	8,048
9,744	9,792	3,180	8,072
9,792	9,840	3,192	8,080
9,840	9,888	3,204	8,108
9,888	9,924	3,216	8,120
9,924	9,972	3,228	8,144
9,972	10,020	3,240	8,168
10,020	10,068	3,252	8,180
10,068	10,116	3,264	8,204
10,116	10,152	3,276	8,216
10,152	10,200	3,288	8,240
10,200	10,248	3,300	8,262
10,248	10,296	3,312	8,276
10,296	10,344	3,324	8,288
10,344	10,390	3,336	8,318
10,390	10,428	3,348	8,324
10,428	10,476	3,360	8,348
10,476	10,524	3,372	8,380
10,524	10,572	3,384	8,384
10,572	10,608	3,396	8,396
10,608	10,656	3,408	8,420
10,656	10,704	3,420	8,432
10,704	10,752	3,432	8,456
10,752	10,800	3,444	8,480
10,800		3,456	8,480

1 SEC. 2. Section 8332 of title 5, United States Code, is
2 amended by adding at the end thereof the following new
3 subsection:

4 "(1) In the case of an employee who after 1967 is
5 separated from the service or transferred to a position in
6 which he does not continue subject to this subchapter, if, at
7 the time he or any of his survivors makes timely application
8 for monthly benefits or a lump-sum death payment under
9 subchapter II of chapter 7 of title 42 on the basis of his
10 wages and self-employment income, neither he nor any of
11 his survivors is entitled to immediate or deferred annuity
12 under this subchapter on the basis of his Government service,
13 that service after June 30, 1966, may not thereafter be con-
14 sidered service for the purpose of this subchapter. On request

1 by the Secretary of Health, Education, and Welfare in con-
2 nection with any determination under subchapter II of
3 chapter 7 of title 42, the Civil Service Commission shall
4 furnish a record of civilian service after June 30, 1966, in
5 which an employee was subject to this subchapter or an
6 earlier corresponding statute, and the basic pay attaching to
7 that service, and shall certify whether the separated or trans-
8 ferred employee or any of his survivors is entitled to im-
9 mediate or deferred annuity under this subchapter on the
10 basis of that service."

11 SEC. 3. Section 8339 of title 5, United States Code, is
12 amended by adding at the end thereof the following new
13 subsections:

14 "(1) If after 1967 an employee retires under section
15 8336 or 8337 of this title, his annuity is at least the smallest
16 of—

17 "(1) the minimum annuity base (as determined
18 under section 8331 (18) of this title) ;

19 "(2) the sum necessary to increase to the minimum
20 annuity base the product of twelve times any monthly
21 benefit under subchapter II of chapter 7 of title 42 to
22 which he is entitled or would be entitled on proper ap-
23 plication; or

24 "(3) 80 per centum of the average pay.

25 This subsection does not apply—

8

1 “(A) for any month before the month in which
2 an employee retired under section 8336 becomes sixty-
3 five years of age; or

4 “(B) to service performed by an alien outside the
5 United States, the Commonwealth of Puerto Rico, the
6 Virgin Islands, Guam, and American Samoa.

7 “(m) If after 1967 an employee dies after completing
8 at least five years of civilian service, or an employee who
9 retired after 1967 under section 8336 or 8337 of this title
10 dies, the annuity granted to the widow or dependent widower
11 under section 8341 (d) of this title or to the surviving spouse
12 under section 8341 (b) of this title is at least the smallest of—

13 “(1) 75 per centum of the minimum annuity base
14 for any month before the month in which the survivor
15 becomes sixty-two years of age, and $82\frac{1}{2}$ per centum
16 of the minimum annuity base for any month thereafter;

17 “(2) the sum necessary to increase to the appli-
18 cable percentage of the minimum annuity base set forth
19 in paragraph (1) of this subsection the product of twelve
20 times any monthly benefit under subchapter II of chap-
21 ter 7 of title 42 to which the survivor is entitled or
22 would be entitled on proper application; or

23 “(3) 80 per centum of the average pay.

24 This subsection does not apply to—

25 “(A) a surviving spouse under section 8341 (b)

9

1 of this title when the retired employee did not elect to
2 provide a survivor annuity or elected one based on less
3 than the full amount of his annuity;

4 “(B) the annuity of a widow, dependent widower,
5 or surviving spouse for any month before the month in
6 which he or she becomes sixty-two years of age, unless
7 for any such month an annuity is payable under section
8 8341 (e) of this title to at least one child of the em-
9 ployee who is under eighteen years of age or is in-
10 capable of self-support because of physical or mental
11 disability incurred before age eighteen; or

12 “(C) service performed by an alien outside the
13 United States, the Commonwealth of Puerto Rico, the
14 Virgin Islands, Guam, and American Samoa.

15 “(n) If after 1967 an employee dies after completing
16 at least five years of civilian service, or an employee who
17 retired after 1967 under section 8336 or 8337 of this title
18 dies, the annuity granted to each surviving child under sec-
19 tion 8341 (e) of this title is at least the smallest of—

20 “(1) 75 per centum of the minimum annuity base;

21 “(2) the sum necessary to increase to 75 per
22 centum of the minimum annuity base the product of
23 twelve times any monthly benefit under subchapter II
24 of chapter 7 of title 42 to which the child is entitled or
25 would be entitled on proper application; or

10

1 “(3) 80 per centum of the average pay.

2 This subsection does not apply to service performed by an
3 alien outside the United States, the Commonwealth of
4 Puerto Rico, the Virgin Islands, Guam, and American
5 Samoa.

6 “(o) When the total of annuities otherwise payable to
7 all survivors of an employee or of a retired employee is
8 greater than—

9 “(1) the amount appearing in column III of the
10 table in section 8331 (18) of this title on the line on
11 which appears in column II the lowest amount which is
12 at least equal to his minimum annuity base; less

13 “(2) the product of twelve times the sum of all
14 monthly benefits under subchapter II of chapter 7 of
15 title 42 to which all the survivors are entitled or would
16 be entitled on proper application;

17 the total of annuities computed under subsections (m) and
18 (n) of this section may not exceed the difference between
19 items (1) and (2) of this subsection, and each annuity is
20 reduced proportionately. However, this subsection does not
21 reduce the annuity of a survivor computed without regard to
22 subsections (m) and (n) of this section. This subsection
23 does not apply to service performed by an alien outside the
24 United States, the Commonwealth of Puerto Rico, the Vir-
25 gin Islands, Guam, and American Samoa.”

TRANSFER OF RETIREMENT CREDITS

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., March 6, 1967.

Hon. JOHN W. McCORMACK,
Speaker of the House of Representatives.

DEAR MR. SPEAKER: The President's January 23 message on older Americans recommended that persons who have employment under the Federal civil service retirement system should have credit for such employment transferred to the social security system if they are not entitled to staff retirement system benefits at the time they reach retirement age, become disabled, or die. Draft legislation which would amend the civil service retirement law to permit such transfer is attached, together with a sectional analysis. The Department of Health, Education, and Welfare is submitting a separate legislative proposal to accomplish the required changes in the social security laws.

OASDI coverage has been extended to members of the uniformed services, to employees of the TVA, and to civilian employees holding temporary Federal appointments, but employees under the civil service retirement system remain specifically excluded. The retirement system provides no protection to such employees (or their families) who die, become disabled, or leave Federal service with less than 5 years of service. It provides an inadequate level of benefits to those with relatively short service. It affords no survivor or disability protection to those who leave Federal employment with entitlement to deferred annuities; most such employees withdraw their retirement contributions, thereby forfeiting the deferred annuity right, and so have no protection, based on their Federal employment, for themselves or their families under either social security or the civil service retirement system.

To close these gaps and remedy these deficiencies, the Cabinet Committee on Federal Staff Retirement Systems last year recommended to the President, and the President has since recommended to Congress, a two-pronged proposal to assure that employees subject to the civil service retirement law have survivor, disability, and retirement protection at least as high as that which the social security system affords the rest of the Nation's work force. This basic level of protection would be established by:

(1) A transfer-of-credit arrangement, under which credits for an employee's Federal service would be transferred to the social security system if no retirement system benefits are payable (either because the employee did not have enough service to meet eligibility requirements for retirement or because he forfeited eligibility by withdrawing his retirement contributions) at the time he dies, becomes disabled, or reaches retirement age.

(2) A guaranteed benefit level, under which retirement system benefits that are paid would be raised to the extent necessary to assure that such benefits, together with any OASDI benefits based on other work, will at least equal the amount that would be payable if the Federal service had been covered by social security.

The transfer-of-credit proposal contemplates amendment of the Social Security Act to provide that service under the civil service retirement system after June 30, 1966 (to assure the 6 quarters of coverage required for OASDI eligibility) shall be considered covered employment under OASDI if neither the employee nor his survivors are entitled to retirement system benefits when he dies, becomes disabled, or reaches retirement age.

All transfers of credit would be made at the time the risk matures—that is, when the employee dies, becomes disabled, or reaches retirement age without protection under the retirement system. For such cases, the retirement trust fund would reimburse the social security trust fund annually in an amount sufficient to meet that proportion of the cost of the social security benefits paid which is attributable to Federal employment under the retirement system.

The retirement system would refund retirement contributions to employees (or their survivors) only to the extent that such contributions exceed the OASDI tax the employees would have paid after June 30, 1966, if their Federal service after that date had been covered by social security. This "tax equivalent" would be withheld from refunds irrespective of whether social security benefits are or will be payable and of whether OASDI taxes are being paid on earnings from other employment.

The guaranteed benefit level proposal would apply only to persons entitled to benefits under the retirement system. It would create no new categories of beneficiaries: there would, for example, be no retirement system benefits for dependents of disabled retirees, none for dependent parents, and no supplements

for wives. It would not apply to the surviving spouse of a deceased annuitant who did not elect a survivor annuity based on the full amount of his own annuity. Neither would it apply to foreign nationals employed abroad and covered by the retirement system.

The proposed amendment to the retirement law provides annuity computation methods which guarantee that the overall retirement benefit (together with any OASDI benefit also due) paid to a retiring employee or to the survivors of a deceased employee or annuitant are not less than the OASDI benefit that would be payable if his Federal service had been covered by social security. If an employee died leaving a wife and children, normal civil service retirement benefits would be computed, then increased in any amount necessary to raise the retirement benefit to the social security level. The children's increased benefit would be payable as long as they are entitled to benefits under the retirement system. The widow would receive the increased benefit until the children ceased to be entitled, at which time the guaranteed social security minimum would no longer be applicable and only the normal civil service retirement benefit would be paid to her. At age 62, the guaranteed social security minimum would again apply and her civil service retirement benefit, if below that level, would again be increased.

Adoption of the recommended two-pronged approach would—without disturbing current benefit rights of present employees and without providing direct OASDI coverage—meet to a large extent the needs for basic retirement, survivor, and disability protection that are not now being met by the civil service retirement system. The proposal would assure all employees subject to that system that if they leave Federal service without retirement system protection, or if they lose such protection, their Federal employment will be credited under social security, giving them continuity of basic protection that is comparable to that afforded workers who move from one job to another in private industry. It would benefit career employees and their families by considerably improving survivor protection up to the time they have completed long periods of service, and by providing improved disability protection for many employees. It would not, however, provide unintended large increases in retirement benefits for long-service employees—such as might occur under a coverage-coordination plan—nor would it duplicate present protection.

It is contemplated that the proposal, if approved, would become effective January 1, 1968.

We estimate the additional level annual cost, on a normal cost plus interest basis, at \$155 million for the transfer-of-credit proposal, and \$125 million for the guaranteed social security minimum proposal. The effect on the administrative budget for fiscal year 1968 would be minimal, amounting to less than \$3 million for additional benefits actually accruing between January 1 and June 30, 1968.

The recommended legislation as now drafted excludes Members of Congress, but there would be no objection to extending the proposal to include them if the Congress should so desire.

The Bureau of the Budget advises that this proposal is in accord with the President's program.

By direction of the Commission.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

Enclosure.

SECTIONAL ANALYSIS

The proposed statutory changes involve the following sections of subchapter III of chapter 83 of title 5, United States Code, respecting civil service retirement.

Section 1 amends section 8331(8) of title 5, United States Code, by redefining "lump-sum credit" to effect withholding of the social security tax equivalent from refunds paid in cases of separated employees and of employees who die without survivors eligible for annuity. Sums so withheld will partially pay the cost of extending social security credits for the Government service (not according retirement annuity title) involved, which credits will generally result in social security benefit advantage.

Section 1 also amends section 8331 of title 5 by adding paragraphs 17 and 18. Paragraph 17 defines "tax equivalent" as the amount of social security tax the employee would have paid had his Federal service been covered by the Social Security Act. Paragraph 18 defines "minimum annuity base" as an amount corresponding to the benefit which would be payable to the retired employee or to an

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employee's or annuitant's survivors had his Federal service been covered by the Social Security Act.

Section 2 amends section 8332 of title 5, United States Code, by inserting a new subsection which bars retirement credit for Federal service after June 1966 in the case of an employee separated after 1967 if neither he nor any survivor has annuity title at the time a social security benefit would become payable to him or a survivor. This would open the way to giving social security credit for the Federal service involved.

Section 3 amends section 8339 of title 5, United States Code, by inserting new subsections (l), (m), (n), and (o). These new subsections provide computation methods which guarantee that the overall retirement benefit payable to a retiring employee or to the survivor(s) of an employee or annuitant shall not be less than that payable under title II of the Social Security Act if the Federal service had been covered by that act. The overall benefit of course takes into consideration any social security benefit also due. This provision will generally improve survivor and disability protection for employees with relatively short service. It is not intended to create new categories of persons eligible to receive civil service retirement benefits nor to guarantee payments at levels which would reflect social security payments with respect to persons not eligible for retirement benefits. Some employees working outside the United States or its possessions who are not covered by social security and surviving widows and widowers not designated to receive a benefit based on the employee's full annuity are not covered by the provision.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., March 20, 1967.

HON. THADDEUS J. DULSKI,
Chairman, Committee on Post Office and Civil Service, House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to the committee's request for the views of the Bureau of the Budget respecting H.R. 6784, "To amend subchapter III of chapter 83 of title 5, United States Code."

The purpose of the bill is twofold: to guarantee to Federal employees subject to the civil service retirement system minimum survivor, disability, and retirement annuity benefits not less than would have been paid if their Federal service had been covered under the social security system; and to authorize the transfer of Federal service credits to the social security system in the case of short-term employees who leave the service, die, or become disabled before becoming eligible for the protections which the civil service retirement system affords long-service employees. Parallel amendments to the Social Security Act required to accomplish the transfer of credit are included in H.R. 5710 now pending in the House Committee on Ways and Means.

The bill thus implements the recommendations made by the President's Cabinet Committee on Federal Staff Retirement Systems that the existing deficiencies in benefit levels and the gaps in basic protections under the civil service staff retirement system be corrected by providing for transfer of credit and for a guaranteed minimum annuity equal to that provided under social security for the same service.

The President endorsed the recommendations of his Cabinet Committee in his pay message of March 7, 1966, and the Bureau of the Budget accordingly strongly recommends the bill to the favorable consideration of your committee as its enactment would be in accord with the program of the President.

Sincerely yours,

WILFRED H. ROMMEL,
Assistant Director for Legislative Reference.

Mr. DANIELS. The subcommittee is pleased to have as its first witness this morning the Chairman of the U.S. Civil Service Commission, Hon. John W. Macy, Jr.

Mr. MACY. Thank you very much, Mr. Chairman, members of the subcommittee.

I am accompanied today by Mr. Andrew Ruddock, the Director of the Commission's Bureau of Retirement and Insurance.

It is a pleasure for me to open these hearings on this very important legislation.

With your permission, Mr. Chairman, I would like to read a statement with respect to this bill, and also to present a supplementary chart explanation of the bill as the opener in my testimony.

Mr. DANIELS. I would like to also add, and I recommend this to the members of the subcommittee, that we permit Mr. Macy to read his statement in full, and then question him upon the completion of that statement.

Mr. MACY. Thank you very much.

STATEMENT BY HON. JOHN W. MACY, JR., CHAIRMAN, U.S. CIVIL SERVICE COMMISSION; ACCOMPANIED BY ANDREW RUDDOCK, BUREAU OF RETIREMENT AND INSURANCE

Mr. MACY. The Civil Service Commission has long shared with this subcommittee concern about certain deficiencies in the disability and survivor protection afforded by the civil service retirement system. I welcome the opportunity to discuss the proposal which you have introduced, Mr. Chairman, to remedy these shortcomings. The action your bill (H.R. 6784) calls for is an important part of the President's program for older Americans, set forth in his message of January 23, and it has his full support.

I might add, Mr. Chairman, that H.R. 6784 is, in effect, a companion bill with H.R. 5710, which is presently receiving the attention of the House Ways and Means Committee, because that bill provides for the necessary amendments of the Social Security Act in order to accomplish the related changes to those proposed in your bill, H.R. 6784.

The civil service retirement system has long been a pacemaker for the purpose it was originally designed to serve—protection for the long-service career employee. It still serves that original purpose in an excellent fashion. It provides superior protection for the survivors of long-service employees, but it is inadequate in certain other respects. It is notably inadequate with respect to benefits for employees with short service and with respect to employees who move between Federal employment and other work.

Federal employees, and their families, are not eligible for any civil service retirement benefits until the employee has completed 5 years of civilian service. We estimate that at the present time almost half a million employees—one-fifth of the Federal work force—do not meet that requirement, and so lack retirement system protection for themselves and their survivors.

We estimate that another three-quarters of a million—30 percent of the work force—who do have retirement system protection have such short service that if they died, their survivors' annuities would be less than would have been payable if their service had been covered by social security rather than the retirement system.

In addition, there are large numbers of employees who shift between Federal and private employment. Last year alone, for example, we paid refunds to 130,000 employees who left Government; in the same year, we took back into Government—that is, employees who served in the Government, had left, and were now returning—by reinstatement alone, 91,000 employees. This, we feel is ample evidence of the

degree of in-and-out movement there actually is. Employees who leave Government immediately lose the disability and survivor protection of the retirement system, and they may not work long enough under social security to qualify for its benefits. Many who shift between Federal and private employment become eligible for benefits under only one system, and lose credit for the years of service they had under the other. Some few may wind up without eligibility for benefits under either system.

For many years we have sought satisfactory means of correcting these deficiencies through establishment of various types of relationships with the social security system. All such proposals have failed of enactment. The proposal under discussion here today will go a long way toward assuring Federal employees the basic protection which the social security system provides for non-Federal workers; yet it will maintain the retirement system's present independence of the social security system.

The proposal, recommended to the President last year by his Cabinet Committee on Federal Staff Retirement Systems, and endorsed by him, both last year and now, is simple in concept. Briefly, we propose that employees subject to the civil service retirement system be guaranteed survivor, disability, and retirement protection at least as high as that which the social security system provides the rest of the Nation's work force.

This objective would be accomplished through a double-barrelled approach:

(1) A transfer-of-credit provision, under which those who do not have retirement system annuity rights when they die, become disabled, or reach retirement age would have credit for their Federal service transferred to the social security system. They would thereby acquire social security protection, exactly as if their Federal service had actually been under social security.

(2) A guaranteed-benefit provision, under which those who are entitled to retirement system annuity benefits at the time of death, disability, or reaching retirement age would be guaranteed retirement benefits which, added to all OASDI benefits payable on the basis of other employment, at least equal the OASDI benefit that would have been payable to him or his survivors if the Federal service had been covered by social security. The proposed amendment to the retirement law provides annuity computation methods that will guarantee this result.

If the proposed legislation is adopted, it will fill the major gaps in protection of those who are not eligible for retirement system benefits. It will provide adequate benefits for short-term employees, and their survivors, who are eligible for immediate retirement system benefits. It will involve no reduction in civil service retirement benefits, and no changes in retirement system eligibility requirements.

As now drafted, the proposal excludes Members of Congress, but there would be no objection to including them if they so desire.

The transfer-of-credit provision contemplates amendment of the social security law to provide that employment under the civil service retirement system after June 30, 1966—to assure the 6 quarters of coverage required for OASDI eligibility—shall be considered covered employment under OASDI if neither the employee nor his survivors

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are entitled to retirement system annuity benefits when he dies, is disabled, or reaches retirement age. At that time he, or his survivors, would apply for social security benefits. Upon request of the Social Security Administration, the employee's credit for service after June 30, 1966, would be transferred to the social security system, and he and his family would thereafter be treated as social security beneficiaries.

The retirement trust fund would reimburse the social security trust fund, annually, in an amount sufficient to meet that proportion of the cost of all social security benefits paid during that year which was attributable to Federal employment under the retirement system.

This cost would be met in part by withholding a "tax equivalent" from the retirement contributions refunded to separated employees or their survivors. The Commission would refund retirement contributions only to the extent that such contributions exceed the OASDI tax the employees would have paid for Federal service after June 30, 1966, if their Federal service after that date had been covered by social security. This tax equivalent would be withheld irrespective of whether social security benefits are or will be payable, and irrespective of whether OASDI taxes are being paid on earnings from other employment.

To state it another way; the funds transferred from the retirement system to the social security system will be only the proportionate amount of the cost of social security benefits actually paid that is attributable to the Federal service under the retirement system. Neither service credits nor funds will be transferred until the employee dies, becomes disabled, or reaches retirement age, and then only for those who apply for OASDI benefits.

The guaranteed-benefit proposal would amend our retirement law to set annuities, for employees and survivors, at levels equivalent to those proposed by the President for future social security beneficiaries, less any amounts of social security benefits payable on the basis of other work. These minimums would be incorporated in the retirement law itself, which would spell out the conditions under which they would apply.

If the social security benefit levels proposed by H.R. 5710 are scaled down by Congress, below the level proposed by the President, we would expect to scale down our guaranteed benefit, too. When social security benefit levels change in the future, the retirement law would also need to be changed if we wish to match the new social security levels.

The guaranteed-benefit provision would apply only to persons entitled to benefits under the retirement system.

It would create no new categories of beneficiaries. The retirement system would pay annuity benefits to the retired employee only, and not to his family, as long as he is alive, even though the social security system pays benefits to wives, children, and, as proposed by H.R. 5710, dependent parents of living social security beneficiaries.

The proposal would not apply to the spouse of a deceased annuitant who did not elect a survivor annuity based on the full amount of his own annuity.

It would not apply to foreign nationals employed abroad who are covered by the retirement system. They are not covered by the social

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security system, and many of them, especially those with short service, would obtain an unwarranted advantage under this guarantee which would be unduly high by the standards of many countries.

And neither would it apply to a person leaving the Federal service and retaining his right to annuity at some future date, that is, to a deferred annuity. Such a person, at retirement age, would be entitled to the normal civil service retirement system benefit. If he died before reaching retirement age, there would be no survivor benefit payable from the retirement system. His Federal service, however, would be available for transfer to the social security system.

Under this part of the proposal, if an employee died leaving a wife and children, normal civil service retirement benefits would be computed, then increased in any amount necessary to match the guaranteed benefit. The children's increased benefit would be payable so long as they are entitled to receive civil service annuities. The widow would receive her increased benefit until the last of the children reached age 18—the point at which her social security benefits would stop in a similar case—and would then drop back to the normal retirement system level. When she became 62, the guaranteed benefit-level provision would again apply and her civil service retirement benefit, if below that level, would again be increased.

If, in the example cited, the widow and children were also eligible for social security benefits on the basis of other service, and those benefits plus the normal retirement system benefits equaled or exceeded the guaranteed benefit established by the proposed legislation, the guaranteed-benefit-level provision would not apply. In that case, the family would get from the retirement system the normal civil service benefit and, from the social security system, whatever social security benefit was payable for the other service.

I said earlier that the proposal is simple in concept. It is. As you can see from the examples cited, however, it will be far from simple in application. There are many questions to which we do not yet have answers, and there will be many problems which can be worked out only in actual operation. These problems result from combining into one system the social insurance principle that all who work should be assured an acceptable level of family income that continues after the worker's earnings are cut off by retirement, disability, or death; and the staff retirement principle that annuity benefits are determined by length of service and salary rather than by need. These problems can be worked out.

I would like to show you now the effects of the proposal in selected cases.

Let us take a PFS-4 postal clerk, for example. The first table attached to your copy of my prepared statement applies to the employee whose average salary is \$6,000 and who has 5 or more years of Federal service. The figures in the first column show the benefits which this legislation would guarantee to him and his survivors under various circumstances. In some cases the full amount would come from the retirement system. In other cases a part of it might come from the social security system. But in all cases at least these amounts would be payable under the circumstances listed. They are the same amounts recommended by the President for future social security beneficiaries and are incorporated in the proposed amendments to the

Social Security Act now being considered by the Ways and Means Committee. They do not vary with length of service.

The columns at the right show the annuity payable under our present law, assuming varying lengths of service. From the figures in them you can see that the guaranteed benefit will do little or nothing for the long-service employee, himself. It can, however, produce appreciably higher annuities for his survivors. Look, for example, at the 20-year man. If he dies, leaving a widow and three children, the total annuity payable to the family under our present law is \$3,180 a year; under the proposed legislation, the family would be assured an income of \$4,560 a year. This same amount would be payable if the man had only 5 years of service; under present law the survivors of the 5-year man would get \$2,232.

Looking at the disability picture, a 40-year-old man who becomes disabled after only 5 years of service would not gain from the proposed legislation. The reason is that we already have a guaranteed disability annuity which in this particular instance works out to be higher than that proposed for the social security system. The formula for our guaranteed disability annuity, however, does not give the 50-year-old man in the same situation as good a break, and such a man who became disabled would benefit from this proposed legislation.

Now, in some circumstances, a social security benefit will be payable on the basis of other service. That is, employment with some employer other than Federal employment, and virtually every employer in the land has employees covered by social security. If that benefit, plus the civil service annuity, adds up to less than the figure shown on the appropriate line in the left-hand column, the annuity will be increased in whatever amount is necessary to bring it up to the guaranteed level. If the social security benefit, plus the normal civil service annuity, exceeds the guaranteed level, both benefits would, nevertheless, be paid in full.

The other tables show the effects of the provision on employees whose 5-year average salary is \$4,000; \$10,000; \$15,000; \$20,000, and \$30,000.

(The tables referred to are as follows:)

TABLE I.—Illustrations of guaranteed benefit levels under proposed legislation (H.R. 6784) and benefits under present retirement law

	5 or more years of service under H.R. 6784 ¹	Present civil service retirement law				
		5 years	12 years	20 years	30 years	41 years, 11 months and over
HIGH 5-YEAR AVERAGE SALARY—\$6,000						
Optional: <i>Retired employee</i>						
Annuity before age 65.....	(2)	\$444	\$1,188	\$2,124	\$3,288	\$4,596
Annuity at age 65 and over.....	\$2,172	444	1,188	2,124	3,288	4,596
Disability:						
Age 40.....	2,172	2,388	2,364	2,340		
Age 60.....	2,172	1,560	2,364	2,340	3,288	
<i>Survivors³</i>						
Widow under age 62, and—						
3 children.....	4,560	2,232	2,652	3,180	3,840	4,620
2 children.....	4,560	1,572	1,992	2,520	3,180	3,960
1 child.....	3,264	912	1,332	1,860	2,520	3,300
No children.....	(2)	252	672	1,200	1,860	2,640

See footnotes at end of table, p. 21

TABLE I.—Illustrations of guaranteed benefit levels under proposed legislation
(H.R. 6784) and benefits under present retirement law—Continued

	5 or more years of service under H. R. 6784 ¹	Present civil service retirement law				
		5 years	12 years	20 years	30 years	41 years, 11 months and over
HIGH 5-YEAR AVERAGE SALARY—\$6,000— continued						
Survivors ³ —Continued						
Widow age 62 and over, and—						
3 children.....	\$4,560	\$2,232	\$2,652	\$3,180	\$3,840	\$4,620
2 children.....	4,560	1,572	1,992	2,520	3,180	3,960
1 child.....	3,420	912	1,332	1,860	2,520	3,300
No children.....	1,788	252	672	1,200	1,860	2,640
No widow, and—						
3 children.....	4,560	2,376	2,376	2,376	2,376	2,376
2 children.....	3,264	1,584	1,584	1,584	1,584	1,584
1 child.....	1,632	792	792	792	792	792
HIGH 5-YEAR AVERAGE SALARY—\$4,000						
Retired employee						
Optional:						
Annuity before age 65.....	(²)	312	816	1,440	2,220	3,120
Annuity at age 65 and over.....	1,656	312	816	1,440	2,220	3,120
Disability:						
Age 40.....	1,656	1,596	1,584	1,560	-----	-----
Age 50.....	1,656	1,068	1,584	1,560	2,220	-----
Survivors ³						
Widow under age 62, and—						
3 children.....	3,192	1,764	2,040	2,400	2,832	3,348
2 children.....	3,192	1,500	1,776	2,136	2,568	3,084
1 child.....	2,496	840	1,116	1,476	1,908	2,424
No children.....	(²)	180	456	816	1,248	1,764
Widow age 62 and over, and—						
3 children.....	3,192	1,764	2,040	2,400	2,832	3,348
2 children.....	3,192	1,500	1,776	2,136	2,568	3,084
1 child.....	2,616	840	1,116	1,476	1,908	2,424
No children.....	1,368	180	456	816	1,248	1,764
No widow, and—						
3 children.....	3,192	2,016	2,016	2,016	2,016	2,016
2 children.....	2,496	1,584	1,584	1,584	1,584	1,584
1 child.....	1,248	792	792	792	792	792
HIGH 5-YEAR AVERAGE SALARY—\$10,000						
Retired employee						
Optional:						
Annuity before age 65.....	(²)	732	1,980	3,528	5,328	7,476
Annuity at age 65 and over.....	3,240	732	1,980	3,528	5,328	7,476
Disability:						
Age 40.....	3,240	3,984	3,948	3,912	-----	-----
Age 50.....	3,240	2,604	3,948	3,912	5,328	-----
Survivors ³						
Widow under age 62, and—						
3 children.....	6,168	2,388	3,096	3,972	5,076	6,384
2 children.....	6,168	1,728	2,436	3,312	4,416	5,724
1 child.....	4,872	1,068	1,776	2,652	3,756	5,064
No children.....	(²)	408	1,116	1,992	3,096	4,404
Widow age 62 and over, and—						
3 children.....	6,168	2,388	3,096	3,972	5,076	6,384
2 children.....	6,168	1,728	2,436	3,312	4,416	5,724
1 child.....	5,112	1,068	1,776	2,652	3,756	5,064
No children.....	2,676	408	1,116	1,992	3,096	4,404
No widow, and—						
3 children.....	6,168	2,376	2,376	2,376	2,376	2,376
2 children.....	4,872	1,584	1,584	1,584	1,584	1,584
1 child.....	2,436	792	792	792	792	792
HIGH 5-YEAR AVERAGE SALARY—\$15,000						
Retired employee						
Optional:						
Annuity before age 65.....	(²)	1,092	2,964	5,160	7,860	11,076
Annuity at age 65 and over.....	3,456	1,092	2,964	5,160	7,860	11,076
Disability:						
Age 40.....	3,456	5,976	5,928	5,724	-----	-----
Age 50.....	3,456	3,912	5,928	5,724	7,860	-----

See footnotes at end of table, p. 21.

TABLE I.—Illustrations of guaranteed benefit levels under proposed legislation (H.R. 6784) and benefits under present retirement law—Continued

	5 or more years of service under H.R. 6784 ¹	Present civil service retirement law				
		5 years	12 years	20 years	30 years	41 years, 11 months and over
HIGH 5-YEAR AVERAGE SALARY—\$15,000— continued						
Survivors ²						
Widow under age 62, and—						
3 children.....	\$6,480	\$2,604	\$3,648	\$4,968	\$6,624	\$8,580
2 children.....	6,480	1,944	2,988	4,308	5,964	7,920
1 child.....	5,184	1,284	2,328	3,648	5,304	7,260
No children.....	(²)	624	1,668	2,988	4,644	6,600
Widow age 62 and over, and—						
3 children.....	6,480	2,604	3,648	4,968	6,624	8,580
2 children.....	6,480	1,944	2,988	4,308	5,964	7,920
1 child.....	5,448	1,284	2,328	3,648	5,304	7,260
No children.....	2,856	624	1,668	2,988	4,644	6,600
No widow, and—						
3 children.....	6,480	2,376	2,376	2,376	2,376	2,376
2 children.....	5,184	1,584	1,584	1,584	1,584	1,584
1 child.....	2,592	792	792	792	792	792
HIGH 5-YEAR AVERAGE SALARY—\$20,000						
Retired employee						
Optional:						
Annuity before age 65.....	(²)	1,464	3,912	6,792	10,392	14,676
Annuity at age 65 and over.....	3,456	1,464	3,912	6,792	10,392	14,676
Disability:						
Age 40.....	3,456	7,968	7,860	7,548	-----	-----
Age 50.....	3,456	5,208	7,860	7,548	10,392	-----
Survivors ³						
Widow under age 62, and—						
3 children.....	6,480	2,808	4,212	5,964	8,172	10,776
2 children.....	6,480	2,148	3,552	5,304	7,512	10,116
1 child.....	5,184	1,488	2,892	4,644	6,852	9,456
No children.....	(²)	828	2,232	3,984	6,192	8,796
Widow age 62 and over, and—						
3 children.....	6,480	2,808	4,212	5,964	8,172	10,776
2 children.....	6,480	2,148	3,552	5,304	7,512	10,116
1 child.....	5,448	1,488	2,892	4,644	6,852	9,456
No children.....	2,856	828	2,232	3,984	6,192	8,796
No widow, and—						
3 children.....	6,480	2,376	2,376	2,376	2,376	2,376
2 children.....	5,184	1,584	1,584	1,584	1,584	1,584
1 child.....	2,592	792	792	792	792	792
HIGH 5-YEAR AVERAGE SALARY—\$30,000						
Retired employee						
Optional:						
Annuity before age 65.....	(²)	2,196	5,736	10,056	15,456	21,876
Annuity at age 65 and over.....	3,456	2,196	5,736	10,056	15,456	21,876
Disability:						
Age 40.....	3,456	11,940	11,664	11,184	-----	-----
Age 50.....	3,456	7,824	11,664	11,184	15,456	-----
Survivors ³						
Widow under age 62, and—						
3 children.....	6,480	3,216	5,316	7,956	11,256	15,180
2 children.....	6,480	2,556	4,656	7,296	10,596	14,520
1 child.....	5,184	1,896	3,996	6,636	9,936	13,860
No children.....	(²)	1,236	3,336	5,976	9,276	13,200
Widow age 62 and over, and—						
3 children.....	6,480	3,216	5,316	7,956	11,256	15,180
2 children.....	6,480	2,556	4,656	7,296	10,596	14,520
1 child.....	5,448	1,896	3,996	6,636	9,936	13,860
No children.....	2,856	1,236	3,336	5,976	9,276	13,200
No widow, and—						
3 children.....	6,480	2,376	2,376	2,376	2,376	2,376
2 children.....	5,184	1,584	1,584	1,584	1,584	1,584
1 child.....	2,592	792	792	792	792	792

¹ The amounts payable under H.R. 6784 would be reduced by all monthly social security benefits payable to the individual, but not below present CSR law.

² Not applicable.

³ Widow also includes a widower who is eligible to receive survivor annuity.

TRANSFER OF RETIREMENT CREDITS

Mr. MACY. The guaranteed-benefit provision would work out differently in various situations, of course. Generally, it will benefit most the employees with 5 to 20 years of service, and surviving families which include children, in cases in which social security benefits are not payable.

We estimate the additional level annual cost on a normal cost-plus-interest basis, at \$155 million for the transfer-of-credit provision and \$125 million for the guaranteed-benefit-level provision.

The proposed legislation and its companion amendments to the social security law will—by filling the gaps in protection under the civil service retirement system and raising the floor of benefits payable—assure Federal employees and their survivors basic income protection at least equal to that provided for the rest of the Nation's work force. It will assure those who leave the service without entitlement to retirement system annuity benefits, and those who lose such entitlement, that their Federal service can be credited for social security. It will significantly improve survivor benefits, especially where there are children. It will do these things without disturbing current benefit rights of present employees and without creating the windfalls that some could realize from other approaches. It is less costly to the Government than any of the various approaches, considered through the years, that would achieve the desired objectives. We strongly endorse the proposal, and urge its early enactment.

I would like now, Mr. Chairman, if I may, to turn to the pamphlet entitled "Transfer of Credit and Guaranteed-Benefit Proposal."¹ This we describe in our jargon as our coloring book on this particular subject. We don't suggest that any colors be inserted, but this is our short label description. I believe that this document will highlight the basic features of this proposal in a fashion that perhaps will aid in our general understanding of it.

The basic problem that this proposal is designed to solve is the problem of too many of our Federal employees having too little in the way of protection, particularly protection for survivorship. In turning to the next page of the pamphlet you will see the dimensions of the problem.

At the present time, approximately 20 percent of Federal employees have no civil service retirement protection because their service has amounted to less than 5 years, or expressed in other terms, they do not have vested rights for civil service retirement protection, because those vested rights are not achieved until 5 years of service is completed.

We estimate that another 30 percent of Federal employees have civil service retirement protection that is at levels below the social security benefit levels. This group is made up predominantly of short-service employees, those with 5 to 20 years of service, and of those employees who receive lower salaries or wages, and who, because of the working of the civil service retirement system, on the basis of length of service and salary levels have not earned an annuity level that would be the equivalent of the social security levels. Fifty percent of our employees have protection which we evaluate as very good to excellent, and they are, for the most part, the longer service employees and those who receive higher salaries.

¹ See reproduction of this pamphlet on pp. 24-36.

To illustrate the extent of movement in and out of the Federal service, we ran a check to see the volume of refunds that we pay to Federal employees who were separated in fiscal year 1966, and we found that 130,000 took refunds from the civil service system when they separated.

We found another figure which has tended to surprise us, and that is that 80 percent of Federal employees who leave the service, and who have funds in the retirement plans, withdraw those funds at the time they leave Federal employment. We also found that 90,000 former Federal employees, with retirement rights, returned to the Federal service during the past year. Presumably, those are individuals who had some civil service retirement previously, left it, withdrew their money, then went into private employment or employment in some other social security covered activity, and were, in all probability, under social security.

Now, the proposal, first of all, involves those who have no title to civil service retirement. If they have no title, the transfer of credit provision applies, and the individual is treated as having eligibility for the social security benefit that he would have earned from his service in Federal employment. Secondly, if the individual is entitled to a civil service retirement benefit, he would be assured of a guaranteed benefit level, so that the normal civil service benefit to which he is entitled, would be raised as necessary to assure that he received an income equivalent to that proposed for future social security beneficiaries, so that we are dealing in this double-barreled program with two targets. One target is for those who have no entitlement to civil service retirement, and therefore would not be eligible for any benefits under the present system, and we are also aiming at the other target which is those who have an entitlement that is so small that it is less than the benefit of those who are under social security.

I want to point out that there is no civil service retirement benefit for dependents of living persons, although there is under social security. I emphasize this to emphasize one point in this plan that could be conceivably misunderstood, and that is that there are no added benefits, basic benefits, that are not already in the civil service retirement system. So we are not taking over all of the benefits that are in social security, but merely applying the social security levels for those benefits that now exist in the civil service retirement system.

Now, in order to illustrate how the transfer of credit proposal would work, the next page, I think, is helpful. We indicate that if the individual is not entitled to civil service retirement benefits at death, disability, or retirement age, the employee or his survivors apply for social security benefits. Social security secures from the Civil Service Commission the service history of the employee, and pays on the basis of that history as though the eligibility were the same as that of a social security beneficiary.

Social security then bills the civil service retirement fund annually for the proportionate cost of social security benefits that are attributable to civil service retirement service, and the Treasury makes the necessary transfer between the two trust funds. I think it is important to note another feature of the proposal, and that is that the civil service retirement system would, under this proposal, refund

retirement contributions that are in the fund, less the tax equivalent under social security, for service of the individual in the retirement system, subsequent to June 30, 1966.

Now, that particular date was selected in order to make it possible for the individual to have six covered quarters, 18 months, a year and a half, prior to the effective date of this proposal, which is January 1, 1968.

The next page is a bit of a graphic on how this will work. It reiterates the points that I have made. You see, in the left column, that the employee who has been in the Government under civil service retirement, presently contributes 6½ percent of his salary to that interesting looking civil service fund on the right hand side of the page; that 6½ percent is matched by appropriated funds that represent the payroll of the employing agency.

If the individual elects to leave the Government, and desires a refund as 80 percent do, under this plan he would receive a refund of his contributions, less the tax equivalent that he would have paid if he had been an employee under social security during the particular period of covered employment.

Then the third step is where this individual works under social security for another employer.

Under that arrangement, he pays the OASDI tax, in accordance with the schedule that is in the Social Security Act at the present time, or modified by any legislation that is under consideration now, and that in turn is matched by the employer under the same percentage of payroll, and that flows into the social security trust fund.

When the individual retires under social security, or when a survivor is eligible for social security, the trust fund pays the benefit from the fund in accordance with the benefit scale of social security for the social security covered period plus the civil service retirement period, and the civil service retirement fund pays into the social security trust fund an amount equivalent to the proportionate cost. Now, the proportionate cost would be determined by the proportion of the total work period that constitutes Federal service.

Our estimate is that the added cost on a level annual basis, which is normal cost plus interest, would run to \$155 million for that particular feature.

To summarize, the transfer-of-credit proposal will help employees with less than 5 years of service, and their survivors—those who do not establish any eligibility or entitlement for civil service retirement benefits. It will help those who lose civil service retirement entitlement, those who withdraw their funds from the system, and therefore are not covered by any system except social security under this arrangement. This would be particularly beneficial for their survivors.

Thirdly, it will help survivors of those entitled to deferred annuity who die before retirement age. Those are the individuals who have accumulated service, who elect, we believe very wisely, to leave their money in the fund, with the anticipation that they will receive a deferred annuity at age 62, but during the waiting period, the civil service retirement system does not provide any coverage for survivorship benefits for those individuals. Under this system for transfer

of credit, it would mean that the survivors of those individuals would be eligible for social security benefits during that period of time.

The guaranteed benefit is for those who have a civil service retirement entitlement, and it forms a warranty for those individuals by indicating that civil service retirement annuity, plus any social security benefit payable for other service, will, at least, equal the OASDI benefit that would be payable to those entitled under civil service retirement if Federal service had been covered by social security.

Now, I have summarized at the bottom of this page the areas where the guaranteed benefit would not be applicable. Those not entitled under civil service retirement, such as parents and other dependents of living persons; such as the spouse of an employee not electing maximum survivor annuity benefits under civil service retirement; such as aliens serving abroad under civil service retirement, and I might say that this is a fairly limited group, primarily those foreign nationals employed in our embassies. The bulk of aliens employed abroad are covered under a negotiated arrangement, whereby they receive social security in keeping with the system in their home country; and finally, this is not applicable to deferred annuitants, their families or survivors.

The guaranteed benefit, then, provides for initial computation of the normal civil service retirement benefit, based upon the formula of years of service, and the high 5-year salary. If, after computation, it is found that the level of benefit is below the guarantee—the guarantee, you recall, is that first column in the sheet—why, then, to offset any social security benefit payable and raise as necessary to match the guarantee, to raise it to the social security level. If below the guarantee for survivors it would provide up to the level for the survivor, but would drop the widow's benefits to the normal civil service retirement level, when the last surviving child is 18, and the widow's eligibility under social security ceases.

It would once again, for such a survivor, raise the widow's benefits at age 62, if necessary to match the guarantee.

Also, in the event of an employee's retirement, his benefit could be brought up after age 65 to the social security level, if his civil service retirement annuity was below the guaranteed level.

If the computed amount for civil service retirement benefits is above the guarantee, civil service retirement and social security each pay an earned benefit in full. In other words, the individual would receive the two checks, based upon the periods of service computed under the two systems. To summarize, then, the guaranteed benefit helps most those with 5 to 20 years' service, especially if they are in the low-pay bracket. It helps most those surviving families that include children. It helps most those not entitled to social security benefits for other service—in other words, those who had not been covered by social security employment at some time in the course of their working career. The added cost for the guaranteed benefit provision is computed at a level annual cost, again normal cost plus interest of \$125 million.

To summarize, those not entitled to civil service retirement benefits would, under this proposal receive social security benefits computed

upon the basis of their Federal service as equivalent to social security coverage.

Those entitled to civil service retirement would at least receive the social security level, and possibly more. Either way, they would never receive less than the normal civil service retirement, and they would have better survivor benefits, particularly if there were children involved.

The cost figures are at a lower level than any other plans proposed for the interrelationship of the civil service retirement system, and the social security system.

(The pamphlet entitled, "Transfer of Credit and Guaranteed-Benefit Proposal" is as follows:)

TRANSFER-of-CREDIT

and

GUARANTEED-BENEFIT

Proposal

— —

H.R. 6784

Problem :

TOO MANY

have

TOO LITTLE

protection

Problem:

<u>% Employees (Est.)</u>	<u>CSR Protection</u>
20%	<u>None</u> — Under 5 Yrs
30%	<u>Below S.S.</u> — Short service, lower paid
50%	<u>V.G. to Exc.</u> — long service, Higher paid

130,000 left CSR last year
90,000 came back to Gov't